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ECONOMICS 2010

23 July 2018

## **ePortfolio Assignment**

### **Monopolistic Competition Essay**

“All happy companies are different: each one earns a monopoly by solving a unique problem. All failed companies are the same: they failed to escape competition” (Peter Thiel).

Monopolistic competition involves many firms competing against each other but selling products that are distinctive in some way. They can differentiate themselves by their branding or quality to create an element of uniqueness that allows for the competition of the same customers. It is something of a hybrid between perfect competition and monopoly, hence imperfect competition. There are four key characteristics of monopolistic competition which include: large number of small firms, similar but not identical products sold by the firms, relative freedom of entry into and exit out of the industry, and extensive knowledge of prices and technology. There are many businesses in our society today that operate under monopolistic competition such as restaurants, hotels, grocery stores, clothing stores, etc.

A monopolistically competitive firm is not allocatively efficient because it does not produce where  $P = MC$ , it instead produces where  $P > MC$ . This means that a monopolistically competitive firm will want to produce lower quality products and services at a higher cost so that it allows them to charge a higher price. With this we enter into availability for society, with many differentiated products individuals are able to have access to various amount information for their purchases. We also face the fact that with such competition, firms focus more on quantity versus quality. Individuals are drawn to products by their reputation and over paying for them rather than focusing on the actual product itself and its functionality for your needs. The demand curve for a monopolistically competitive firm is downward-sloping, this allows monopolistic competitors to raise their prices and not have to worry about losing all of its customers and rather they gain more customers. If one monopolistic competitor earns positive economic profits, other firms are tempted to enter the market. The more firms enter the market we can expect to see the quantity demanded decline therefore resulting in a shift in the demand curve to the left.

Overall, monopolistic competition allows us to live in a society where we have many differentiated products. Though many critics argue that society does not need various amounts of differentiated products, based on the fact that it is socially wasteful to create such high costing products. It is up to the individual at the end of the day to decide for themselves if they want to purchase differentiated products.

## Reflective Statement

This concept is important for economist to study and for individuals, households and firms to utilize because it is in our benefit to know all the different types of markets. The monopolistic competitive market is a great example that illustrates how firms entering and exiting the market affects not just seller but buyers. The many factors that allows shifts in the demand curves, which allow us to identify patterns to see if we are economically stable. Monopolistic Competition is part of our daily life and a major contributor in our decision making to make certain purchases. Whether we want to accept it or not, we live in a society where competition exists especially in businesses, it is crucial that we use the information available to us that can really make a difference in our purchases.